US Equity Strategy | North America

Vintage Values 2024

Vintage Values 2024 assembles the best insights of Morgan Stanley Research for stocks to hold for 12 months: mid- to large-caps likely to realize superior risk-adjusted returns over the next year.

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For '*Vintage Values 2024*,' our 14th annual iteration in the series, Morgan Stanley Research's Stock Selection Committee (SSC) wove together fundamental and quantitative analyses to identify our top ideas.

We began by asking each of our North America analysts for their top recommendation for a one-year buy-and-hold investment horizon; more than 50 names were suggested by our analysts. The SSC, in conjunction with our US Equity Strategy team, considered each of these companies' macro exposure, industry positioning, valuation, and, crucially, the risk-reward profile, paying particular attention to the skew of the analysts' Bull- and Bear-Case valuation estimates.

The SSC also considered each stock's ranking within our Quantitative Equity Strategy team's Quality Score. Further, our Global Sustainability Research team worked with the SSC to integrate Environmental, Social, and Governance (ESG) analysis into the selection process.

In evaluating the makeup of the *Vintage Values* list, the SSC also considered the sector weighting recommendations of our US Equity Strategy team, led by Chief Strategist Michael Wilson.

Our '*Vintage Values 2023*' list produced a 19.49% return over the period from August 23, 2022 to September 6, 2023, outperforming the S&P 500 by 941 basis points over that time frame. (See inside for more detail regarding *Vintage Values 2023*, as well as important disclosures).

Abbvie	Medtronic
Alphabet	Microsoft
Amazon.com	New Fortress Energy
Bath & Body Works	NextEra Energy
Emerson Electric	NVIDIA
Humana	Sherwin-Williams
Keurig Dr Pepper	Visa
M&T Bank Corp.	

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Vintage Values 2024: Financial Summary

Exhibit 1: Key Financial Data

Ticker	Company name	Primary sector	Primary Analyst	Market Cap (mn)	Share price ($)	Price target ($)	Upside to price target (%)	Bull case value, per share	Bear case value, per share	Earnings Per Share		P/E, diluted		Div. yield (%)		FCF yield (%)		Raw Beta	Adjusted Beta
					6-Sep					2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e		
ABBV.N	Abbvie Inc.	Healthcare	Flynn, Terence	257,008	145.61	189.00	30%	272.00	87.00	11.07 e	11.13 e	13.1	13.1	4.1% e	4.3% e	8.2%	5.8%	0.52 e	0.68
GOOGL.O	Alphabet Inc.	Media	Nowak, Brian	1,700,685	134.46	155.00	15%	200.00	95.00	5.82 e	7.45 e	23.1	18.0	NA	NA	4.7%	6.3%	1.21 e	1.14
AMZN.O	Amazon.com Inc	Technology	Nowak, Brian	1,396,611	135.36	175.00	29%	245.00	90.00	2.52 e	3.66 e	NM	37.0	0.0% e	0.0% e	0.2%	2.2%	1.33 e	1.22
BBWI.N	Bath & Body Works, Inc.	Retail	Straton, Alex	8,490	37.34	61.00	63%	122.00	17.00	3.34 e	4.06 e	11.2	9.2	2.1% e	2.1% e	9.8%	12.1%	1.26 e	1.17
EMR.N	Emerson Electric Co	Consumer Discr./Industrials	Pokrzywinski, Joshua	56,390	98.67	116.00	18%	130.00	85.00	4.44 e	5.08 e	22.2	19.4	2.1% e	2.4% e	4.8%	2.4%	1.00 e	1.00
HUM.N	Humana Inc	Healthcare	Ha, Michael	57,625	465.07	624.00	34%	752.00	338.00	28.25 e	33.17 e	16.5	14.0	0.7% e	0.7% e	5.6%	8.0%	0.55 e	0.70
KDP.O	Keurig Dr Pepper Inc	Consumer Staples	Mohsenian, Dara	46,389	33.20	39.00	17%	50.00	26.00	1.79 e	1.92 e	18.6	17.3	2.5% e	2.6% e	4.3%	5.5%	0.53 e	0.69
MTB.N	M&T Bank Corp.	Financials	Gosalia, Manan	20,211	121.79	155.00	27%	187.00	93.00	15.95 e	14.85 e	7.6	8.2	4.3% e	4.5% e	NM	NM	0.79 e	0.86
MDT.N	Medtronic PLC	Healthcare	Wood, Patrick	107,387	80.71	104.00	29%	125.00	64.00	5.11 e	5.68 e	15.8	14.2	3.6% e	3.9% e	6.2%	7.1%	0.75 e	0.83
MSFT.O	Microsoft	Technology	Weiss, Keith	2,473,220	332.88	415.00	25%	533.00	263.00	9.81 e	11.27 e	34.7	29.5	0.8% e	0.9% e	2.4%	2.4%	1.14 e	1.09
NFE.O	New Fortress Energy Inc	Energy/Utilities	McDermott, Devin	6,473	31.57	44.00	39%	86.00	17.00	3.80 e	5.52 e	8.3	5.7	11.0% e	1.3% e	-17.9%	-3.8%	1.36 e	1.24
NEE.N	NextEra Energy Inc	Energy/Utilities	Arcaro, David	132,938	65.69	90.00	37%	97.00	56.00	3.10 e	3.40 e	21.2	19.3	2.8% e	3.1% e	-2.3%	-1.3%	0.80 e	0.87
NVDA.O	NVIDIA Corp.	Technology	Moore, Joseph	1,162,407	470.61	630.00	34%	800.00	370.00	10.94 e	16.84 e	43.0	27.9	0.0% e	0.0% e	2.0%	3.3%	1.89 e	1.60
SHW.N	Sherwin-Williams Co.	Materials	Andrews, Vincent	69,191	269.07	300.00	11%	375.00	225.00	9.70 e	12.00 e	27.7	22.4	0.9% e	1.1% e	3.7%	4.6%	0.96 e	0.98
V.N	Visa Inc.	Technology	Faucette, James	501,025	246.16	292.00	19%	347.00	144.00	8.68 e	9.95 e	28.4	24.7	0.7% e	0.8% e	3.6%	3.4%	0.99 e	1.00

Source : ModelWare and Thomson Reuters, data as of 9/6/2023
Adjusted beta is the 3 year weekly historical beta which is smoothed by multiplying the raw beta by 0.67 plus 0.33
Metrics are calculated using the "for consensus" methodology
NA = Not Applicable; NM = Not Meaningful

Vintage Values 2024

This is the 14th annual edition of *Vintage Values*. In compiling the list, our stock-selection framework blended our analysts' fundamental views with quantitative analysis.

We began by asking each of our North America analysts for their top recommendation for a one-year buy-and-hold investment horizon; more than 50 names were suggested by our analysts. Morgan Stanley Research's Stock Selection Committee (SSC), in conjunction with our US Equity Strategy team, assessed each company's macro exposure, industry positioning, valuation, and risk-reward profile, paying particular attention to the skew of the analysts' Bull- and Bear-Case valuation estimates.

The SSC also considered each stock's ranking within our Quant Strategy team's Quality scoring model. Additionally, the SSC collaborated with our Global Sustainability Research team to integrate ESG analysis into the process.

To arrive at our final list of 15 names, the SSC also considered the sector weighting recommendations of our Chief US Equity Strategist Michael Wilson; *Vintage Values 2024* is broadly aligned with Mike's sector preferences — for instance, it is overweight Health Care and Utilities, and underweight "Discretionary Tech."

The list has a bias toward high-quality stocks, yet it screens as less expensive than the market on almost all multiples-based metrics, especially key cash-flow-based valuation measures. We highlight that 73% of the *Vintage Values 2024* stocks are characterized as "High Quality" by our proprietary quantitative classification model, well above the 42% of the S&P 500 that our model identifies as "High Quality." Yet the average stock in the portfolio is currently trading at a 15% discount to the market on forward P/E (16.1 vs. 18.9x for the S&P 500) and a 19% discount on Price-to-Operating Cash Flow (12.8x vs. 15.8x). Although its FCF yield is largely in line with the market's, more of that cash is being returned to shareholders: Its dividend yield of 2.3% exceeds the S&P's 2.0%, and when including share buybacks, its total yield of 4.3% is materially above the market's 3.2%.

After a 2Q earnings season that saw some downward revisions to earnings estimates, we highlight that *Vintage Values 2024* offers a materially more attractive earnings revision profile, which also comes with superior earnings quality according to a key measure we monitor.

- *Revisions:* The list's 3-Month Smoothed Revisions of +3.0% are above the 2.2% for the index, as does the Up-to-Down revisions ratio, which is almost 50 percentage points above the S&P 500's.
- *Quality:* Accruals (defined as the difference between earnings and cash flow — a measure of earnings quality) for *Vintage Values 2024* is 2.8%, materially better than the S&P's 4.0%.

In terms of style, it is weighted toward Growth: 53% of our list is classified as "Growth" by our proprietary quantitative style model, well above the 36% for the index overall; 13% is classified as "Value" by our quant model, vs. 30% for the S&P 500 (the remaining 33% are classified as neither Growth nor Value, according to our quant style model). Its Cyclical vs. Defensive mix is largely in line with the S&P 500.

We currently recommend avoiding small caps, and *Vintage Values 2024* reflects that view. It skews toward large-cap stocks: 80% of the names are classified as either mega-cap or large-cap (and it carries a zero weight in small caps), and the average market cap of $539 billion is well above the $80 billion average for the S&P 500. The portfolio's beta is effectively neutral at 1.02.

Exhibit 2: Vintage Values 2024 vs S&P 500 as of September 5, 2023

	Factor	Portfolio	Benchmark	Portfolio vs Benchmark
Valuation	Price-to-Book	4.0x	4.2x	0.9x
	Price-to-Fwd. Earnings	16.1x	18.9x	0.8x
	Price-to-Sales	2.6x	2.4x	1.1x
	Price-to-Oper. Cash flow	12.8x	15.8x	0.8x
	EV-to-EBIT	11.6x	18.0x	0.6x
	EV-Free Cash Flow	15.7x	28.0x	0.6x
	Dividend Yield	2.3%	2.0%	0.3%
	Total Yield	4.3%	3.2%	1.1%
	Free Cash Flow Yield	3.9%	4.0%	-0.1%
Capital Use and Profitability	Cash-to-Market Capitalization	17.4%	15.4%	1.1x
	Capex-to-Sales	12.8%	7.3%	1.8x
	Accruals	2.8%	4.0%	0.7x
	Asset Turnover	63.2%	73.1%	0.9x
	Gross Margin	52.2%	46.9%	5.2%
	Change in Shares Outstanding	-1.1%	-1.3%	0.2%
Growth and Investor Sentiment	9-Month Price Momentum	13.5%	21.1%	-7.6%
	3-Month Smoothed Earnings Revisions	3.0%	2.2%	0.8%
	Up-to-Down Revisions	197.8%	149.1%	48.7%
	Sales Stability	12.5%	18.3%	(5.8%)
	Beta	1.02	1.00	1.0x
Size	Market Cap	538,625	79,769	6.8x

Source :ClariFi, FactSet, as interpreted by Morgan Stanley's Quantitative Equity Research team.
* The Vintage Values portfolio is equally weighted

Exhibit 3: Vintage Values 2024 vs S&P 500 Exposures as of September 5, 2023

Exposure	Group	Portfolio	Benchmark	Portfolio vs Benchmark
Size	Mega-Cap Stocks	40.0%	9.6%	30.4%
	Large-Cap Stocks	40.0%	42.8%	-2.8%
	Mid-Cap Stocks	20.0%	46.4%	-26.4%
	Small-Cap Stocks	0.0%	1.0%	-1.0%
Quality	High	73.3%	42.4%	30.9%
	Medium	0.0%	4.2%	-4.2%
	Low	0.0%	5.8%	-5.8%
	Junk	26.7%	47.6%	-20.9%
Style	Growth	53.3%	35.6%	17.7%
	Value	13.3%	30.4%	-17.1%
Cyclical/ Defensive	Cyclical	40.0%	41.8%	-1.8%
	Defensive	26.7%	26.0%	0.7%
Sectors	Energy	6.7%	4.5%	2.1%
	Materials	6.7%	2.4%	4.2%
	Industrials	6.7%	8.3%	-1.7%
	Consumer Discretionary	13.3%	10.6%	2.8%
	Consumer Staples	6.7%	6.5%	0.2%
	Health Care	20.0%	13.1%	6.9%
	Financials	13.3%	12.5%	0.9%
	Information Technology	13.3%	28.5%	-15.1%
	Communication Services	6.7%	8.8%	-2.1%
	Utilities	6.7%	2.4%	4.3%
	Real Estate	0.0%	2.4%	-2.4%

Source: ClariFi, FactSet, as interpreted by Morgan Stanley's Quantitative Equity Research team. * The Vintage Values portfolio is equally weighted. The benchmark portfolio assumes an equally-weighted portfolio for the size, quality, style and cyclical-defensive categories. Sectors use the actual S&P 500 sector weights

'***Vintage Values 2023***' **outperformed the S&P 500.** Last year's *Vintage Values* names produced a total return of 19.49% over the period from August 23, 2022 to September 6, 2023, outperforming the S&P 500 by 941 basis points over that period.

Exhibit 4: Performance of 'Vintage Values 2023' (August 23, 2022-September 6, 2023)

Ticker	Company name	Total Return	Contrib. to Portfolio Return
AMZN.O	Amazon.com Inc	1.30%	0.09%
CBOE.Z	CBOE Global Markets Inc.	25.41%	1.69%
CDW.O	CDW Corporation	17.13%	1.14%
LLY.N	Eli Lilly & Co.	79.62%	5.31%
EDR.N	Endeavor Group Holdings, Inc	-5.62%	-0.37%
XOM.N	Exxon Mobil Corporation	20.73%	1.38%
RACE.N	Ferrari NV	50.90%	3.39%
LMT.N	Lockheed Martin Corp	1.12%	0.07%
MNST.O	Monster Beverage Corp	24.84%	1.66%
PANW.O	Palo Alto Networks Inc	29.17%	1.94%
SPG.N	Simon Property Group Inc	15.51%	1.03%
STT.N	State Street Corporation	2.26%	0.15%
TMO.N	Thermo Fisher Scientific Inc.	-6.11%	-0.41%
V.N	Visa Inc.	20.00%	1.33%
ZTS.N	Zoetis Inc.	16.06%	1.07%
Total		**19.49%**	**19.49%**
S&P 500		**10.08%**	**10.08%**

Source: Source: Thomson Reuters, Bloomberg, Morgan Stanley Research.
Data as of September 6, 2023
This assumes the focus list was constituted with equal-weighted positions on August 23, 2022
Results shown represent total absolute return (including dividends) and exclude brokerage commissions and transaction costs.

Risk Reward – Abbvie Inc. (ABBV.N)

Diversification and pipeline execution will continue to drive multiple re-rating

PRICE TARGET $189.00

Our 12-month price target of $189 is based on a 16x P/E multiple applied to our 3Q24-2Q25 EPS estimate of $11.80. This multiple is above ABBV's 10-year average (11.5x) and the industry (14.5x) but deserved given the company's growth profile and pipeline optionality.

Consensus Price Target Distribution

$169.14

$135.00 ◆ $205.00

MS PT

Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$272.00(+86.80%)   Prob (>272.00)~0.0%

$189.00(+29.80%)   Prob (>189.00)~11.5%

$145.61

$87.00(-40.25%)   Prob (<87.00)~4.3%

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

ABBV is successfully diversifying away from its key immunology drug Humira, with the launches of new immunology drugs Skyrizi and Rinvoq and ongoing integration of the 2019 Allergan acquisition for an aesthetics franchise. We expect ABBV to further execute on this strategy (including derisking its mid to late stage pipeline) and deliver MSD revenue/EPS growth (second in the industry only to LLY), which will continue to drive a re-rate of the stock's P/E multiple to 16.5x+.

Consensus Rating Distribution

● 52% Overweight
  48% Equal-weight
  0% Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Market Share: *Positive*
Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $272.00

19x bull case 3Q24-2Q25 EPS

Skyrizi and Rinvoq launches accelerate as new indications ramp (including IBD) and deliver 2025 combined sales of $22.8bn, Humira US erosion is slower than anticipated and confidence builds in the pipeline. We include risk-adjusted sales for a number of ABBV's pipeline assets, including Emab and Teliso-V.

BASE CASE $189.00

16.0x base case 3Q24-2Q25 EPS

Skyrizi and Rinvoq launches continue on a solid trajectory (including IBD) and deliver 2025 combined sales of $18.2bn and Humira US erosion is -35% in 2023. We include risk-adjusted sales for a number of ABBV's pipeline assets, including Emab and Teliso-V.

BEAR CASE $87.00

10x bear case 3Q24-2Q25 EPS

Skyrizi and Rinvoq launches slow (2025 combined sales of $13.7bn) and Humira US erosion is -48% in 2023. We exclude any contribution from ABBV's pipeline.

Risk Reward – Abbvie Inc. (ABBV.N)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Net revenues growth (%)	3.3	(7.9)	0.7	7.2
Skyrizi growth (%)	75.7	49.7	28.8	12.2
Rinvoq growth (%)	52.8	48.7	51.3	24.2
Gross profit growth (%)	5.7	(8.7)	1.4	7.7
Operating income (EBITA) growth (%)	11.1	(17.0)	2.2	10.0

CATALYST CALENDAR

Date	Event	Source: Refinitiv, Morgan Stanley
H2 2023	Skyrizi: Ph3 vs Stelara in Crohn's disease (SEQUENCE) data	
H1 2024	ABBV-951 (Levo/Carbidopa): FDA action on approval in Parkinson's disease	

INVESTMENT DRIVERS

- Skyrizi and Rinvoq launches
- Aesthetics market growth
- Humira biosimilar erosion
- Mid-to-late stage pipeline progress

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% Europe ex UK
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 70-80% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster growth of Skyrizi and Rinvoq
- Slower-than-anticipated erosion of Humira
- Success of mid-to-late stage pipeline

RISKS TO DOWNSIDE

- Slower growth of Skyrizi and Rinvoq
- Faster-than-anticipated erosion of Humira
- Failure of mid-to-late stage pipeline

OWNERSHIP POSITIONING

Inst. Owners, % Active	54.6%
HF Sector Long/Short Ratio	2.3x
HF Sector Net Exposure	21.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e

Sales / Revenue ($, mm)	51,454	53,888 / 53,116	55,249
EBIT ($, mm)	17,012	25,592 / 24,205	26,181
Net income ($, mm)	17,762	19,765 / 19,639	20,807
EPS ($)	10.09	11.13 / 11.06	11.74

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Alphabet Inc. (GOOGL.O)

Alphabet Inc.

PRICE TARGET $155.00

Our price target is determined using a discounted cash flow/discount to long-term EBITDA multiple. It implies a ~12X 2024e adjusted EBITDA. Our DCF uses a ~10% WACC and a ~3% terminal growth rate (in line with other growth-oriented internet companies). Our multiple based valuation uses a ~12x EV/EBITDA multiple, ~8% below the 3-year median.

Consensus Price Target Distribution

$148.06

$121.00 ◆ ◆ $200.00

MS PT

Source: Refinitiv, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

USD

$200.00(+48.74%)   Prob (>200.00)~7.4%

$155.00(+15.28%)   Prob (>155.00)~36.9%

$134.46

$95.00(-29.35%)   Prob (<95.00)~12.2%

SEP '22   MAR '23   SEP '23   SEP '24

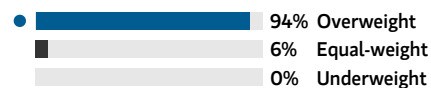**Key:** — Historical Stock Performance   ● Current Stock Price   ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- Continued AI-driven platform-level innovation on Search, YouTube, and with other offerings improve confidence in the durability of long term growth.
- Continued expense discipline leads to operating leverage and upward revisions on EPS and FCF estimates.

Consensus Rating Distribution

● ▬▬▬▬▬ 80% Overweight

▬▬ 20% Equal-weight

  0% Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*

New Data Era: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $200.00

Implied ~14X 2024e bull case EBITDA.

Better than expected expense discipline and share repurchases lead to multiple expansion and higher earnings power. Online ad spending accelerates into 2H and '24 as GOOGL continues to take share of Search spend. New AI offerings prove incremental to the top and bottom line and don't cannibalize core Search. YouTube and Cloud become even bigger contributors to top-line growth, and operate at a higher margin than in our base case.

BASE CASE $155.00

Implied ~12X 2024e base case EBITDA.

Assumes pragmatic revenue/EBITDA growth in '23 and continued incremental platform monetization. As GOOGL continues platform-level innovation on Search and other categories, we assume pragmatic revenue/EBITDA growth while digital ad budgets expand. GOOGL introduces new AI offerings which increase confidence in the durability of long term growth and calm fears around competition. GOOGL executes towards improved operating efficiency throughout '23 and into '24,

BEAR CASE $95.00

Implied ~8X 2024e bear case EBITDA.

Global ad growth slows further and margins face pressure. Assumes slower search advertising growth, and that ad spending slows further. Expense discipline fails to materialize leading to lower than expected adj. EBITDA. New AI products create greater than expected margin pressure due to lower monetization rates and increased compute intensity.

Risk Reward – Alphabet Inc. (GOOGL.O)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Total operating income (GAAP) ($, mm)	74,842	86,312	108,030	124,242
GAAP Operating Income (Loss) ($, mm)	79,978	91,385	112,630	128,292

INVESTMENT DRIVERS

- Search advertising spend continues to gain share of global advertising budgets.
- Mobile search advertising continues to take share of online budgets.
- Investments in video driving longer-term monetization at YouTube.
- Moderation of expense growth.

GLOBAL REVENUE EXPOSURE

- **0-10%** APAC, ex Japan, Mainland China and India
- **0-10%** India
- **0-10%** Japan
- **0-10%** Latin America
- **0-10%** MEA
- **0-10%** UK
- **10-20%** Europe ex UK
- **40-50%** North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	3/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- New products generate higher than expected top line contribution.
- Capital returns through greater share buybacks.
- Hiring and/or spend per headcount is lower than expected.

RISKS TO DOWNSIDE

- High exposure to SMB and travel could pressure ad revenue in a recession
- Improved disclosure around the Google and Other Alphabet segments may not decrease the overall investment activity of the business.

OWNERSHIP POSITIONING

Inst. Owners, % Active	61.5%
HF Sector Long/Short Ratio	3.1x
HF Sector Net Exposure	14.4%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2023e

	Low	Mean	MS	High
Sales / Revenue ($, mm)	297,378	304,658	308,649	309,920
EBITDA ($, mm)	110,596	121,805	121,652	127,697
Net income ($, mm)	63,815	71,818	73,823	76,179
EPS ($)	4.85	5.64	5.82	6.40

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Amazon.com Inc (AMZN.O)

AMZN Risk Reward

PRICE TARGET $175.00

We value AMZN based on an EV/EBIT multiple, we apply a ~35x EV/Avg '24/'25 EBIT multiple to AMZN's base case EBIT, resulting in a $175 PT and an implied ~38x EV/'24 EBIT

Consensus Price Target Distribution

$169.91

$128.00 ———— MS PT ———— $230.00

Source: Refinitiv, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

USD

$245.00(+81.00%)   Prob (>245.00)~0.9%

$175.00(+29.28%)   Prob (>175.00)~22.2%

$135.36

$90.00(-33.51%)   Prob (<90.00)~11.0%

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- Amazon's high-margin businesses continue to allow Amazon to drive greater profitability while still continuing to invest (last mile delivery, fulfillment, Prime Now, Fresh, Prime digital content, Alexa/Echo, India, AWS, etc).
- Amazon Prime membership growth drives recurring revenue and positive mix shift.
- Cloud adoption hitting an inflection point.
- Advertising serves as a key area for both further growth potential and profitability flow-through.

Consensus Rating Distribution

● ████████████ 94% Overweight
■ ██ 6% Equal-weight
0% Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*
New Data Era: *Positive*
Technology Diffusion: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $245.00

~45x Bull Case '24e EV/EBIT

We value AMZN based on an EV/EBIT multiple, we apply a ~40x EV/Avg '24/'25 EBIT multiple to AMZN's bull case EBIT, resulting in a $245 Bull case valuation which implies ~46x EV/'24 Bull case EBIT

BASE CASE $175.00

~38x EV/ '24 EBIT

We value AMZN based on an EV/EBIT multiple, we apply a ~35x EV/Avg '24/'25 EBIT multiple to AMZN's base case EBIT, resulting in a $175 PT and an implied ~38x EV/'24 EBIT

BEAR CASE $90.00

~24x Bull Case '24e EV/EBIT

We value AMZN based on an EV/EBIT multiple, we apply a ~23x EV/Avg '24/'25 EBIT multiple to AMZN's bear case EBIT, resulting in a $90 Bear case valuation which implies ~24x EV/'24 Bear case EBIT

Risk Reward – Amazon.com Inc (AMZN.O)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Revenue ($, mm)	513,983	577,950	658,435	738,565
Gross Profit ($, mm)	225,909	269,823	315,166	360,954
GAAP EBIT ($, mm)	12,248	32,460	47,518	57,946
Paid Unit Growth (y/y) (%)	4.9	10.4	12.0	10.0
AWS Revenue Growth (%)	28.8	15.9	20.1	16.1

INVESTMENT DRIVERS

- Amazon's high-margin businesses continue to allow Amazon to drive greater profitability while still continuing to invest
- Cloud is in a multi-decade secular adoption cycle
- Amazon is gaining share in eCommerce/retail and share of consumers' wallets

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% Mainland China
- 0-10% UK
- 10-20% Europe ex UK
- 60-70% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 BEST	24 Month Horizon	4/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster than expected AWS rev growth and margin expansion
- 1-day shipping cost transition goes faster than expected
- Amazon succeeds in expanding its TAM (logistics, advertising, grocery, etc)

RISKS TO DOWNSIDE

- Investments step up and continue for longer than expected
- Unit growth slows
- AWS revenue decelerates and /or margins decline

OWNERSHIP POSITIONING

Inst. Owners, % Active	58.6%
HF Sector Long/Short Ratio	1.5x
HF Sector Net Exposure	9.3%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2023e

	Low	Mean	MS
Sales / Revenue ($, mm)	556,000	569,752	577,950
EBITDA ($, mm)	90,348	100,155	110,048
Net income ($, mm)	18,121	22,969	26,431 / 26,839
EPS ($)	1.74	2.21	2.52 / 2.57

◆ Mean ◆ Morgan Stanley Estimates
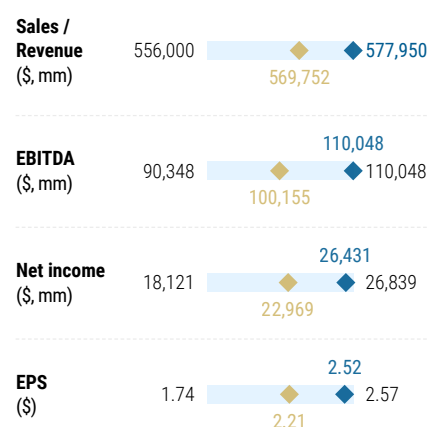
Source: Refinitiv, Morgan Stanley Research

Risk Reward – Bath & Body Works, Inc. (BBWI.N)

Best-In-Class Historical Track Record & L-T Trajectory

PRICE TARGET $61.00

Our $61 PT is derived from our DCF base case scenario, utilizing an 8.8% WACC & 1.5 beta. The base case utilizes a +1% terminal growth rate (in-line with the broader Softlines industry) & ~20% terminal EBIT margin (in-line with mgmt's 20%+ guidance). Contemplates 10x 2023e EV/EBITDA & 18x 2023e P/E (vs. 7x & 10x implied by recent trading levels).

Consensus Price Target Distribution

$47.78

$37.00 ◆ ◆ $68.00

MS PT

Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART

USD

$122.00(+226.73%)

$61.00(+63.36%)

$37.34

$17.00(-54.47%)

SEP '22   MAR '23   SEP '23   SEP '24
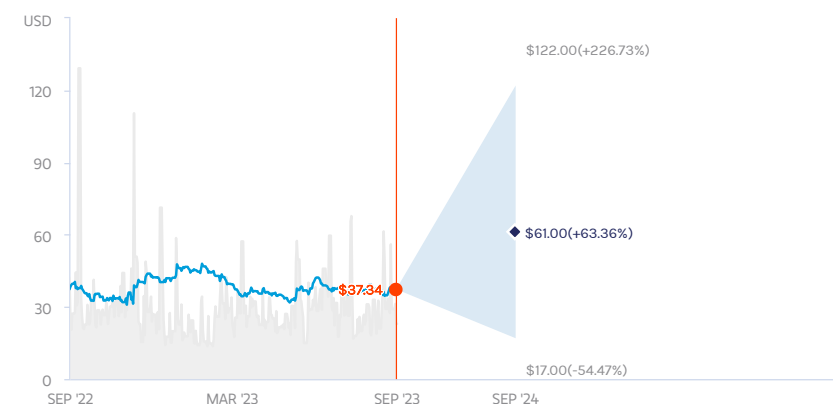
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

▪ We are confident in BBWI's ability to deliver +MSD-HSD topline growth & low-mid-20s % EBIT margin L-T. This is in-line with 1) BBWI's historical financial performance & 2) mgmt's 3-5Y guidance.
▪ BBWI has credible L-T topline growth drivers in: 1) existing categories, 2) the digital channel, and 3) internationally. We are more cautious on growth in 4) new/adjacent categories, particularly hair/skin care.
▪ Following the spin, BBWI is a much cleaner story worth at least LDD+ 2023e EV/EBITDA if not into the low-teens+ range, which credits it for its MSD-HSD%+ anticipated topline growth rate & 20%+ EBIT margin trajectory, both of which are best-in-class.

Consensus Rating Distribution
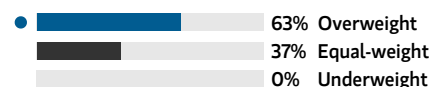
63% Overweight
37% Equal-weight
0%   Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Market Share:	*Positive*
Special Situation:	*Positive*
Technology Diffusion:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $122.00

17x $1.8B 2023e EBITDA & 32x $3.84 2023e EPS

BBWI delivers out-year revenue growth in-line with pre-Covid trend & above the high end of mgmt's 3-5Y L-T targets (e.g., 10%+ '24e-'27e avg. vs. +MSD-HSD target). GM ticks up to 47% thru '27e, while SG&A leverages to ~24% of sales by '27e. EBIT grows +14% on avg. in '24e-'27e, equal to a 23%+ avg. EBIT margin, both above mgmt's targets (e.g., +MSD-HSD & 20%+). DCF contemplates 3% terminal growth & 24% terminal EBIT margin.

BASE CASE $61.00

10x $1.6B 2023e EBITDA & 18x $3.34 2023e EPS

BBWI delivers out-year revenue growth within mgmt's 3-5Y L-T targets (e.g., +7% '24e-'27e avg. vs. +MSD-HSD target). GM remains in-line with pre-Covid levels (~44-45%), & SG&A continues at ~25% of sales thru '27e on post-separation spend. EBIT grows +10% on avg. in '24e-'27e, equal to a ~19% avg. EBIT margin, in-line with 20%+ target. DCF contemplates 1% terminal growth & 20% terminal EBIT margin.

BEAR CASE $17.00

5x $1.4B 2023e EBITDA & 7x $2.54 2023e EPS

BBWI delivers out-year revenue growth a touch below mgmt's 3-5Y L-T targets (e.g., +3.7% '24e-'27e underlying avg. vs. +MSD-HSD target). GM remains below pre-Covid levels (~43-44%), while SG&A rises to ~27% of sales thru '27e . EBIT rises just 6% on avg. as '24e-'27e as expenses mount, equal to a ~16% avg. EBIT margin, in-line with historical lows & below the low end of mgmt's target range (e.g., 20%+). DCF contemplates -1% terminal growth & 11% terminal EBIT margin.

Risk Reward – Bath & Body Works, Inc. (BBWI.N)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Comp (%)	(8.4)	(3.8)	7.6	4.7
Y/Y Adj. Sales Growth (%)	(4.1)	(1.6)	9.5	6.6
Adj. EBIT Margin - For Restructuring (%)	18.2	17.8	18.7	19.3
Y/Y Adj. EBIT Growth - For Restructuring (%)	(31.9)	(3.6)	14.7	10.1
Adj. EBITDA Margin - For Restructuring (%)	21.1	22.1	23.0	23.6

INVESTMENT DRIVERS

- 2Y-3Y underlying revenue CAGR
- EBIT margin
- EBITDA & EBITDA margin

GLOBAL REVENUE EXPOSURE

- ● 0-10% APAC, ex Japan, Mainland China and India
- ● 0-10% Europe ex UK
- ● 0-10% India
- ● 0-10% Japan
- ● 0-10% MEA
- ● 0-10% Mainland China
- ● 0-10% UK
- ● 90-100% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 BEST	24 Month Horizon	3/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Recent results prove durable & BBW surpasses its 20%+ L-T EBIT margin target
- Market awards BBW a low-teens+ multiple following post-spin clarity
- BBW announces further actions to return cash to shareholders

RISKS TO DOWNSIDE

- Recent results prove temporary, & BBW falls short of its 20%+ historical EBIT margin level as it absorbs standalone expenses
- Sales drivers fail to sustain +MSD-HSD growth

OWNERSHIP POSITIONING

Inst. Owners, % Active	65.1%
HF Sector Long/Short Ratio	1.5x
HF Sector Net Exposure	9.3%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jan 2024e

	Low	Mean	MS	High
Sales / Revenue ($, mm)	7,232	7,410	7,440	7,500
EBIT ($, mm)	1,206	1,256	1,327	
EBITDA ($, mm)	1,467	1,504	1,646	
EPS ($)	2.60	3.08	3.39	
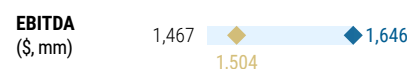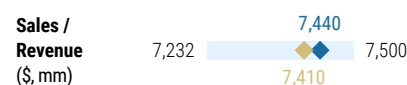
◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Emerson Electric Co (EMR.N) `Top Pick`

Proactive Restructuring With Improving Risk Reward

PRICE TARGET $116.00

Our $116 price target is based on ~19.3x our NTM EPS (F4Q24-F3Q25) of $6.02, which includes accretion from the NATI acquisition, assuming it closes at the end of 2023. This implies EMR trades at a 2% premium to peers, above its long term average 3% discount.

Consensus Price Target Distribution
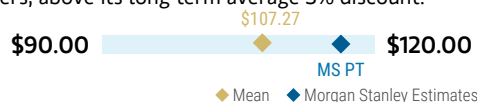
$107.27

$90.00   ─── $120.00

MS PT

Source: Refinitiv, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$130.00(+31.75%)   Prob (>130.00)~10.4%
$116.00(+17.56%)   Prob (>116.00)~28.1%
$98.67
$85.00(-13.85%)   Prob (<85.00)~20.4%

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here.

OVERWEIGHT THESIS

We see an improving catalyst path as the EMR likely benefits from order acceleration and derated valuation. This is ultimately a risk/reward call, in our view, as a blue sky bull case is more difficult to stretch with a more debatable synergy case on NATI given the lack of overlap. On the other hand, process markets are inflecting strongly with the progression of downstream projects, LNG, and hydrogen, supporting continued order ramp. We see EMR as an excellent combination of attractive valuation, including proforma EMR + NATI where we see <15x P/FCF on 2024, cyclical momentum, and, following the portfolio moves, more secular growth.

Consensus Rating Distribution

● ▬▬▬▬▬▬	72% Overweight
▬▬▬	28% Equal-weight
	0% Underweight
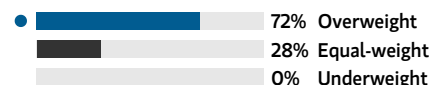
● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Self-help:	*Positive*
Special Situation:	*Positive*
Technology Diffusion:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $130.00

21x our NTM EPS of $6.18

Our Bull Case assumes revenues are up ~11% organically in FY23, above the company's guidance, followed by 7%/5.5% organic growth in FY24/25. Our $130 price target is based on 21x our NTM EPS (F4Q24-F3Q25) of $6.18, which includes NATI accretion, assuming it closes at the end of 2023. NATI accretion contributes $0.43/$0.72 to FY24/25 EPS. The 21x multiple implies EMR trades at an 11% premium to peers, above its long term average 3% discount.

BASE CASE $116.00

~19.3x our NTM EPS of $6.02

Our base case reflects a ~10% organic increase in sales in FY23. We see that growth continuing at ~MSD in FY24/25. Our $116 price target is based on ~19.3x our NTM EPS (F4Q24-F3Q25) of $6.02, which includes NATI accretion, assuming it closes at the end of 2023. NATI contributes $0.43/$0.72 to FY24/25 EPS. The ~19.3x multiple implies EMR trades at a 2% premium to peers, above its 3% long term discount.

BEAR CASE $85.00

18x our NTM EPS of $4.74

Our Bear Case assumes EMR grows 8% in FY23, below guidance, as the macro environment worsens and projects continue to be pushed to the right. We expect growth to continue at ~3% in FY24/25. We forecast margins in high teens. The 18x multiple is based on EMR trading at a 4% discount to peers, roughly in line with its long-term average.

Risk Reward – Emerson Electric Co (EMR.N)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
AS Organic growth (%)	7.4	6.2	5.0	5.0
C&RS Organic growth (%)	12.4	(0.3)	3.0	3.0
Segment Margins (%)	28.2	22.0	22.6	23.3

INVESTMENT DRIVERS

- Process automation capex driving growth in Automation Solutions
- Continued margin expansion

GLOBAL REVENUE EXPOSURE

- ● 0-10% APAC, ex Japan, Mainland China and India
- ● 0-10% India
- ● 0-10% Japan
- ● 0-10% Latin America
- ● 0-10% MEA
- ● 0-10% Mainland China
- ● 0-10% UK
- ● 10-20% Europe ex UK
- ● 50-60% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 BEST	24 Month Horizon	4/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Process capex increasing above expected rate.
- Margin expansion could progress at a better than expected rate.

RISKS TO DOWNSIDE

- Process capex plateauing.
- Increasing utilization in facilities can limit the need for automation.
- Inflation with a lack of offsetting price increases could present a headwind to margins.

OWNERSHIP POSITIONING

Inst. Owners, % Active	55.4%
HF Sector Long/Short Ratio	1.4x
HF Sector Net Exposure	7%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Sep 2023e

Sales / Revenue ($, mm)	15,184	15,234 / 15,263		15,351
EBITDA ($, mm)	3,707	3,886	4,348	
Net income ($, mm)	2,089	2,562 / 2,527	2,624	
EPS ($)	4.43	4.44 / 4.45		4.55
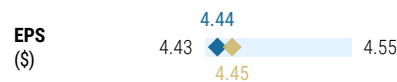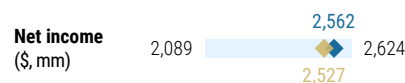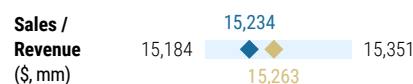
◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Humana Inc (HUM.N)

We View HUM's 2023 MA Benefit Offering as Providing Upside Earnings Opportunity

PRICE TARGET $624.00

Our price target is based on a 15.6x 2024 P/E multiple (vs. prior 15.9x P/E) applied to our 2025E EPS of $40.00. Our PT change reflects marking to market HUM's PT multiple to be inline with UNH's current 2025 P/E. Over the past 20 years, HUM has traded at parity with United and we believe given HUM's strengthening fundamentals that they currently deserve to be trading inline with United.

Consensus Price Target Distribution
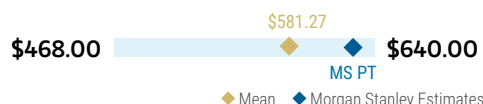
$581.27

$468.00 — ◆ ◆ — $640.00

MS PT

Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

USD

$752.00(+61.70%)   Prob (>752.00)~1.5%

$624.00(+34.17%)   Prob (>624.00)~13.1%

$465.07

$338.00(-27.32%)   Prob (<338.00)~10.1%

SEP '22   MAR '23   SEP '23   SEP '24

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

■ We view HUM's fundamental growth story favorably given the greatest exposure to Medicare Advantage (MA) vs peers. We now believe HUM's 2023 MA benefit offering provides a structural enhancement to their value proposition that we believe may provide stronger membership growth in the coming years & a clearer path to $37 EPS by 2025.
■ Humana has both high earnings exposure (~67%) to Medicare Advantage (MA), and strong MA market share (~18%)
■ Humana is executing on organic Medicaid growth and at only ~4% of earnings, Medicaid provides an additional growth pipeline for the company
■ A strong BS and continued solid cash generation lay a foundation for expanding services offerings via potential M&A.

Consensus Rating Distribution
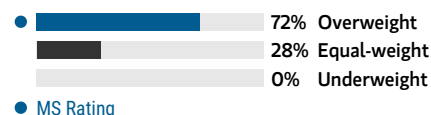
● ▬▬▬▬▬▬ 72% Overweight
  ▬▬▬   28% Equal-weight
           0% Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $752.00

18.5x FY25E EPS of $40.62

Bull case multiple reflects 18.5x P/E multiple. The multiple reflects the current S&P 500 multiple. We see the bull case multiple for HUM at parity with the S&P 500.

BASE CASE $624.00

15.6x FY25E EPS of $40.00

Our price target is based on a 15.6x 2024 P/E multiple (vs. prior 15.9x P/E) applied to our 2025E EPS of $40.00. Our PT change reflects marking to market HUM's PT multiple to be inline with UNH's current 2025 P/E. Over the past 20 years, HUM has traded at parity with United and we believe given HUM's strengthening fundamentals that they currently deserve to be trading inline with United.

BEAR CASE $338.00

8.6x FY25E EPS of $39.39

Bear case multiple reflects multiple of 8.6x. This reflects the minimum NTM P/E multiple for HUM over the last 20 years.

Risk Reward – Humana Inc (HUM.N)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Benefits Expense Ratio (BER) (%)	86.3	86.6	86.4	86.4
Medicare Membership Growth (%)	3.2	14.9	8.9	9.0
Adjusted EPS Growth (%)	22.3	12.0	17.4	20.6

INVESTMENT DRIVERS

- Medicare Advantage Growth
- Medicaid RFP wins
- Medicare Advantage Margins / MLR
- M&A or strategic ventures leverage footprint to further enhance value based offerings

GLOBAL REVENUE EXPOSURE

● 100%   North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Humana is able to grow Medicaid business through RFP wins and tuck-ins
- Company is able to sustain above market MA growth
- MA margins improve to target 4.5%-5% range

RISKS TO DOWNSIDE

- Regulatory uncertainty
- Humana is unable to maintain its recent improvement in Stars ratings
- More competition in Medicare Advantage makes growth more challenging

OWNERSHIP POSITIONING

Inst. Owners, % Active	65.2%
HF Sector Long/Short Ratio	2.3x
HF Sector Net Exposure	21.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2023e

Sales / Revenue ($, mm)	101,619 ... 106,610	104,225 (MS), 103,454 (Mean)
Net income ($, mm)	3,484 ... 3,620	3,538 (Mean)
EPS ($)	28.01 ... 28.42	28.25 (MS), 28.29 (Mean)

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Keurig Dr Pepper Inc (KDP.O) `Top Pick`

Compelling Valuation With Robust US Refreshment Momentum and Coffee Inflection

PRICE TARGET $39.00

Our $39 PT is derived from a ~15x CY24 EV/EBITDA (implies 20x CY24 P/E), based upon a ~15% discount to KO/PEP for cold beverages and a mid-teens EV/EBITDA multiple on coffee, which is supported in our minds by increased visibility of a 2H23 coffee profit inflection. Valuation is also supported by our DCF analysis, which assumes a ~3%/4% sales/NOPAT CAGR, and ~1% terminal growth rate.

Consensus Price Target Distribution
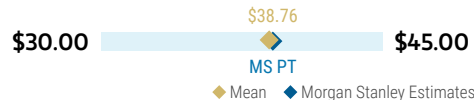
$30.00 ——————— $38.76 ——————— $45.00
MS PT

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

USD

$50.00(+50.60%)   Prob (>50.00)~1.0%

$39.00(+17.47%)   Prob (>39.00)~26.0%

$33.20

$26.00(-21.69%)   Prob (<26.00)~10.1%

SEP '22   MAR '23   SEP '23   SEP '24

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

Visibility on continued US Refreshment Beverages (cold drink) upside provides flexibility to offset coffee weakness in our base case, or in a bad case scenario at least limit corporate downside, with an outsized potential bull case which could come into sight in H2 with a Coffee inflection.

Coffee softness is real and an admitted continued risk factor, but we see increased visibility for a 2H inflection.

Consensus Rating Distribution

●	56% Overweight
	39% Equal-weight
	6% Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

BULL CASE $50.00

18x CY24e EV/EBITDA

HSD LT Topline Growth: Stronger than expected coffee recovery, sustained stronger than expected cold momentum, and greater than expected GM recovery drive upside to estimates and multiple expansion to ~18x CY24e bull-case EBITDA.

BASE CASE $39.00

~15x CY24e EV/EBITDA

MSD LT Organic Sales Growth: We expect MSD LT organic sales growth in both coffee and cold drinks, with ~50 bps per year GM recovery in 2023-24. We apply a ~15x CY24 EV/EBITDA multiple, based upon a ~15% discount to KO/PEP on the cold business and a mid-teens multiple for coffee.

BEAR CASE $26.00

11x CY24 EV/EBITDA

~2% LT Topline Growth: Coffee challenges persist and cold beverage momentum slows, driving corporate topline growth to slow to ~2%. Valuation contracts to ~12x CY24 bear-case EBITDA.

Risk Reward – Keurig Dr Pepper Inc (KDP.O)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Organic Sales Growth (%)	11.1	5.9	4.7	4.3
Volume/Mix (%)	0.5	0.5	2.0	2.1
Price (%)	10.6	4.7	2.3	2.3
Gross Margin Bps Change	(169.3)	46.2	39.4	10.0
EPS % Growth (%)	5.3	6.4	7.5	9.9

INVESTMENT DRIVERS

- US scanner data trends improve for coffee pods
- Household penetration for coffee brewers is higher than expected
- Synergy/cost savings realization
- COVID-19 impacts

GLOBAL REVENUE EXPOSURE

- 0-10% Latin America
- 90-100% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

Higher volume growth in coffee on higher household penetration growth, better coffee pod pricing, stronger than expected cold beverage topline momentum, margin expansion when commodity prices decline

RISKS TO DOWNSIDE

Slowdown in household penetration for the Keurig system, weaker coffee pod price realization, cold beverage momentum slowing, continued greater than expected inflationary pressure

OWNERSHIP POSITIONING

Inst. Owners, % Active	63%
HF Sector Long/Short Ratio	1.1x
HF Sector Net Exposure	0.8%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2023e

EPS ($)	1.78	1.79 (Mean 1.78, MS 1.79)	1.79
Sales / Revenue ($, mm)	14,764	14,942 (Mean 14,896)	15,059
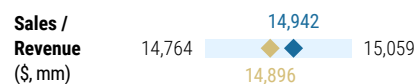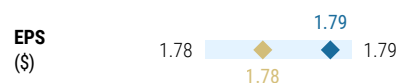
◆ Mean   ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – M&T Bank Corp. (MTB.N)

Assessing the Bull, Bear and Base Case Scenarios for M&T Bank

PRICE TARGET $155.00

Assumptions for our price target for MTB include a cost of equity of 11% and a beta of 1.5 or 10.5x our 2024e EPS.

Consensus Price Target Distribution
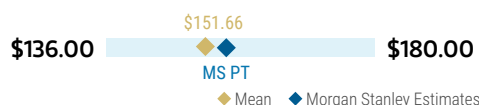
$136.00 $151.66   MS PT $180.00

Source: Refinitiv, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART

$187.00(+53.54%)

$155.00(+27.27%)

$121.79

$93.00(-23.64%)

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

■ MTB should be one of the most resilient banks to tighter liquidity conditions because of their significant excess liquidity and capital position.
■ Cash ended 1Q23 at 12% of total assets versus 7% pre-COVID, which can fund deposit outflows while still growing its securities book, and a CET1 ratio of 10.15% allows for continued buybacks in 2023.
■ Valuation is also attractive, trading at a sizable P/E discount relative to its historical average

Consensus Rating Distribution

●   57%   Overweight
   43%   Equal-weight
   0%   Underweight
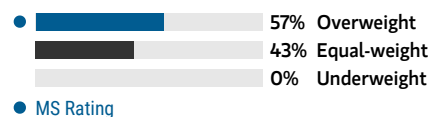
● MS Rating

Source: Refinitiv, Morgan Stanley Research

BULL CASE $187.00

10.5x our Bull Case 2024e EPS

Resilient economic growth. Deglobalization drives accelerating on-shoring, resulting in strong real wage growth. Low income consumers supported by a tight labor market, businesses still struggling to fill job openings, helping keep unemployment flat. Credit remains benign as consumers pare back discretionary spending to maintain the higher repayment rates reached during the pandemic. Fed rate hikes bring inflation down to ~2-3% by YE24 without causing a significant recession. QT ends.

BASE CASE $155.00

10.5x our Base Case 2024e EPS

Slowing Growth, Rising Credit Losses. Banks tighten lending standards, slowing loan growth. Earning assets mix shift towards HQLA. Deposit betas ramp as loan growth outstrips deposit growth amid continued QT + deposit migration to MMF/Treasuries. Inflation erodes excess cash & slows consumer spending. Unemployment creeps up to 4% by YE23. Fed pauses in '23, then cuts 100bps in each of '24/'25 & 50bp in '26. New capital rule proposals to be phased in between '25-'27, driving down excess capital.

BEAR CASE $93.00

0.6x our Bear Case 2024e BVPS

Hard landing. Stubbornly high inflation drives Fed to raise rates even faster/higher than forward curve, causing a sharp recession. Unemployment spikes well above 5% as layoffs pick up, draining consumer cash reserves. Consumer losses rise well above 2019 levels. Corporate defaults increase as higher inflation and funding costs lower margins. CRE deterioration accelerates. Loan loss reserve ratios increase. Deposit betas accelerate, pressuring NIM. Expense ratios rise.

Risk Reward – M&T Bank Corp. (MTB.N)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Net Interest Margin (%)	3.39	3.75	3.47	3.51
Average Loan Growth (%)	23.3	11.7	(0.1)	2.7
Efficiency Ratio (%)	56.8	55.1	57.2	56.1
NCO Ratio (%)	0.13	0.32	0.48	0.38
ROTCE (%)	16.9	17.5	14.3	16.5

CATALYST CALENDAR

Date	Event	Source: Refinitiv, Morgan Stanley
18 Oct 2023	Q3 2023 M&T Bank Corp Earnings Release	
18 Jan 2024	Q4 2023 M&T Bank Corp Earnings Release	

INVESTMENT DRIVERS

- Pace of rate hikes and cash deployment
- Commercial loan growth

GLOBAL REVENUE EXPOSURE

● 100%   North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Lower-than-expected inflation
- Lower-than-expected funding costs
- Stronger-than-expected economic growth

RISKS TO DOWNSIDE

- Higher-than-expected inflation
- Higher-than-expected funding costs
- Higher loan losses as the economy slows.

OWNERSHIP POSITIONING

Inst. Owners, % Active	58.3%
HF Sector Long/Short Ratio	1.8x
HF Sector Net Exposure	11.1%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2023e

EPS ($)	14.51	15.95 / 16.37	17.49
Net income ($, mm)	2,471	2,656 / 2,747	2,908
ROE (%)	10.6	11.4 / 11.9	18.4
DPS ($)	5.20	5.20 / 5.23	5.60

◆ Mean   ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Medtronic PLC (MDT.N) `Top Pick`

Medtronic PLC Risk Reward

PRICE TARGET $104.00

Our price target reflects 17.5x our Base Case FY25e EBITDA, assuming MDT can close the valuation gap to large cap peers on more sustained operational execution and in-line c. 5% organic growth.

Consensus Price Target Distribution
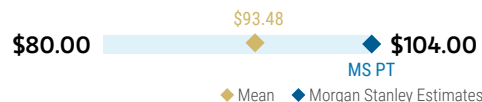
$93.48

$80.00 ◆ ◆ $104.00
MS PT

Source: Refinitiv, Morgan Stanley Research

◆ Mean ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$125.00(+54.88%)   Prob (>125.00)~1.2%

$104.00(+28.86%)   Prob (>104.00)~10.5%

$80.71

$64.00(-20.70%)   Prob (<64.00)~15.8%

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

■ We think MDT is on the cusp of turning an operational corner with the appointment of Greg Smith to run the supply chain business as well as change of 13 supply chain companies down to 2.

■ We expect this to drive more consistent operational growth going forward for the business.

■ Our new deep dive work into key areas like PFA, leadless pacing, circular stapling, peripheral diabetic neuropathy, and closed loop SCS all give us confidence the group can begin to consistently drive c. +5% organic sales growth over the coming years.

■ Low expectations and discounted valuation vs. the industry given recent operational hiccups provide attractive entry point.

Consensus Rating Distribution

● ▬▬▬ 50% Overweight
▬▬▬ 44% Equal-weight
▬ 6% Underweight

● MS Rating
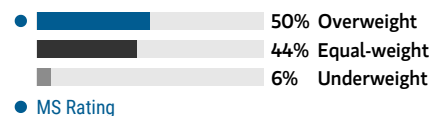
Source: Refinitiv, Morgan Stanley Research

BULL CASE $125.00

18.5x Bull Case FY25e EBITDA

Our bull case uses an 18.5x target EBITDA multiple and implies a 2025 P/E of ~19x. Our bull scenario estimates assume a 7% sales CAGR on relative share gains within both PFA as well as a faster than expected uptake of leadless pacing and share gains in circular stapling. Our bull case also assumes better SG&A leverage on a stronger topline. Our bull case has MDT shares trading in-line with large cap peers, though growth would be at the top-end of the group (+7%).

BASE CASE $104.00

17.5x Base Case FY25e EBITDA

Our base case assumes a +4.3% sales CAGR (more like +5% organic) with faster growth than consensus in rhythm management (PFA and leadless pacing) and some helpful leverage on the SG&A line. Our base case uses a 17.5x EBITDA multiple with an implied P/E of just over 18x, essentially implying that MDT closes the valuation gap to large-cap peers, which we think would make sense given +5% organic growth would be in-line with the peer group.

BEAR CASE $64.00

13.0x Bear Case FY25e EBITDA

Our bear case uses a 13.0x EBITDA multiple and implies a P/E of just under 13x, which we think makes sense given an assumed LSD organic growth (+2.5% sales CAGR) which would place MDT closer to Baxter. Our bear case also assumes cost inflation prevents any further margin expansion going forward

Risk Reward – Medtronic PLC (MDT.N)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Revenues ($, mm)	31,227	32,169	33,688	35,346
Organic Growth (%)	2.0	4.6	4.7	4.9
Gross Margins (%)	66.5	65.6	66.8	67.5
Operating Margins (EBIT) (%)	26.6	25.3	26.2	27.2
EPS, Diluted ($)	5.28	5.11	5.68	6.20

INVESTMENT DRIVERS

- Procedure re-acceleration following COVID-19
- Pipeline launches (Hugo soft tissue robot; 780G & Zeus/Synergy in Diabetes; Renal Denervation)
- 5%+ topline growth and cost restructuring driving ~30-50bps of annual Operating Margin expansion

GLOBAL REVENUE EXPOSURE

0-10%	APAC, ex Japan, Mainland China and India
0-10%	India
0-10%	Japan
0-10%	Latin America
0-10%	MEA
0-10%	Mainland China
0-10%	UK
20-30%	Europe ex UK
50-60%	North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster development of a true dual chamber leadless pacing system.
- Faster share gains in ablation than expected.
- Successful placements of Hugo in robotics ahead of expectations.

RISKS TO DOWNSIDE

- Material competitive landscape changes (SCS, CRM, DBS, TAVR, Spine)
- Diabetes extends declines into the foreseeable future
- Emerging Markets slowdown
- Unexpected operational issues on supply chain management.

OWNERSHIP POSITIONING

Inst. Owners, % Active	59.5%
HF Sector Long/Short Ratio	2.3x
HF Sector Net Exposure	21.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Apr 2024e

Sales / Revenue ($, mm)	31,947	32,169 / 32,160	32,363
EBIT ($, mm)	7,934	8,176	8,308
EPS ($)	5.09	5.11	5.17

◆ Mean   ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Microsoft (MSFT.O) `Top Pick`

Accelerating Growth & AI Leadership Not Priced-In

PRICE TARGET $415.00

31x Base Case FY25e EPS of $13.52. 31x PE is a slight premium to large cap software peers, but at 1.6x PEG, in line with MSFT historical PEG given 17.5% EPS CAGR.

Consensus Price Target Distribution

$387.17

$232.00   ▬▬▬◆▬◆▬ $440.00

MS PT

Source: Refinitiv, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

USD

$533.00(+60.12%)   Prob (>533.00)~2.2%
$415.00(+24.67%)   Prob (>415.00)~21.3%
$332.88
$263.00(-20.99%)   Prob (<263.00)~17.6%

SEP '22   MAR '23   SEP '23   SEP '24

Key: ▬ Historical Stock Performance   ● Current Stock Price   ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- Strong positioning for public cloud adoption & AI, large distribution channels and installed customer base, and expanding margins supports EPS growth. Weaker NT cyclical environment improves as cloud optimizations complete - LT trends remain durable.
- Teens revenue growth, opex discipline and strong capital return lead to durable high-teens total return profile long term .
- At ~27x CY24e GAAP EPS, MSFT trades at a discount to the large cap peers, unwarranted due to MSFT's premium return profile. Multiple expansion and positive estimate revisions will come from greater than expected strength in commercial business in coming years.

Consensus Rating Distribution
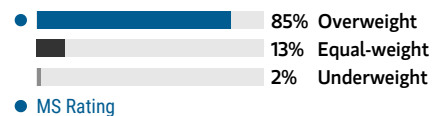
● ▬▬▬▬▬▬   85% Overweight
  ▬   13% Equal-weight
  ▯   2%   Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption:	Positive
New Data Era:	Positive
Secular Growth:	Positive

View descriptions of Risk Rewards Themes here

BULL CASE $533.00

35x Bull Case FY25e EPS: $15.36

Azure, O365 & Robust Contribution from AI Drive Top-Line Growth. Acceleration in Azure growth, adoption of higher priced O365 Commercial SKUs and continued seat growth, and robust adoption of Azure AI services and Microsoft AI Copilots across business lines drive high-teens revenue CAGR in the coming years. Operating margins expand to ~46% by FY25 and FY25e EPS is $15.36. 35x PE represents a premium to large cap software peers, but in line with historical 1.6x PEG given 20% EPS CAGR.

BASE CASE $415.00

31x Base Case FY25e EPS of $13.52

Azure, O365 & Ramping Contribution from AI Drive Top-Line Growth. Durability of Azure growth, adoption of higher priced O365 Commercial SKUs and continued seat growth, and ramping adoption of Azure AI services & Microsoft AI Copilots across business lines drive mid-teens rev CAGR ahead. Operating margins expand to ~44% by FY25 and FY25e EPS is $13.52. 31x PE is a slight premium to large cap software peers, but at 1.6x PEG, in line with MSFT historical PEG given 17.5% EPS CAGR.

BEAR CASE $263.00

22x Bear Case FY25e EPS: $12.23

Macro, Scale & Limited AI Adoption Drives Top-Line Growth Deceleration. Azure growth continues deceleration given scale, while O365 reaches penetration and adoption of Azure AI services & Microsoft AI Copilots across business lines remains limited. This drives low-teens rev CAGR. Operating margins only expand to ~42% by FY25 and FY25e EPS is $12.23. 21x PE is a discount to large cap software peers, and at 1.3x PEG, a discount to MSFT historical PEG given 15% EPS CAGR.

Risk Reward – Microsoft (MSFT.O)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Azure Revenue Growth (%)	45.2	29.3	29.1	35.5
Server Products On-Prem Growth (%)	4.3	(1.4)	(1.3)	0.0
Gross Margins (%)	68.4	68.9	67.9	67.8
Operating Margins (%)	42.1	42.3	43.0	43.5
GAAP EPS Growth (%)	14.4	6.5	14.9	19.9

INVESTMENT DRIVERS

- Sustainability of commercial growth, cloud momentum, improving cloud margins
- Improving PC data points

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 10-20% Europe ex UK
- 50-60% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Cloud adoption accelerates, with Azure as convincing winner
- AI leadership results in substantial revenue contribution over-time
- Operational efficiencies leading to greater than anticipated economies of scale and margin expansion

RISKS TO DOWNSIDE

- Weak macro impacting IT spending
- On-premises cannibalization by Cloud
- Increased investments hurt margin expansion
- AI adoption proves limited

OWNERSHIP POSITIONING

Inst. Owners, % Active	57.6%
HF Sector Long/Short Ratio	2.4x
HF Sector Net Exposure	27.7%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jun 2023e

Sales / Revenue ($, mm) ◆ 211,915
Note: There are not sufficient brokers supplying consensus data for this metric

EBITDA ($, mm) ◆ 102,384
Note: There are not sufficient brokers supplying consensus data for this metric

Net income ($, mm) ◆ 73,307
Note: There are not sufficient brokers supplying consensus data for this metric

EPS ($) ◆ 9.81
Note: There are not sufficient brokers supplying consensus data for this metric

◆ Mean   ◆ Morgan Stanley Estimates
Source: Refinitiv, Morgan Stanley Research

Risk Reward – New Fortress Energy Inc (NFE.O)

NFE benefits from vertical integration and a robust growth pipeline

PRICE TARGET $44.00

Derived from our Base Case using a Sum-of-the-parts based DCF with 25-year asset lives and a 9.1% WACC.

Consensus Price Target Distribution

$32.00 $45.44 $61.00

MS PT

Source: Refinitiv, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART

USD

$86.00(+172.41%)

$44.00(+39.37%)

$31.57

$17.00(-46.15%)

SEP '22   MAR '23   SEP '23   SEP '24

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research
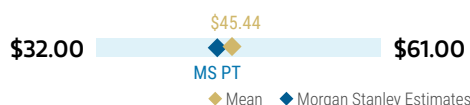
OVERWEIGHT THESIS

■ **Highly differentiated exposure to the growing penetration of LNG** in the global energy mix, benefitting from vertical integration and the growth of LNG demand.

■ **Ability to open new markets and sell LNG at premium electricity prices** through conversion of existing energy demand into to gas (i.e., power plants, alumina refineries, railways, other industrial/commercial users).

■ **Experienced management team with a proven track record led by Wes Edens**, co-founder of Fortress Investment Group.

Consensus Rating Distribution

● 80% Overweight
  20% Equal-weight
  0% Underweight

● MS Rating
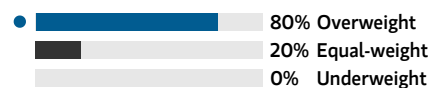
Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption:	*Positive*
Pricing Power:	*Positive*
Renewable Energy:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $86.00

Derived from our Bull Case DCF

NFE increases downstream terminal penetration. NFE expands its business plan adding additional sale contracts. We include 8 additional growth terminals in our bull case (from 4 in our base case), increasing total demand to ~18 MM gallons per day by 2025.

BASE CASE $44.00

Derived from our Base Case DCF at a 9.1% WACC

NFE successfully develops its pipeline of projects. The company successfully executes its business plan, finalizing LNG sale contracts across the world. We include existing projects as well as unfinished projects in Brazil, Ireland, and NFE's Fast LNG projects in GoM in addition to green and blue hydrogen projects. We also ascribe value for NFE's ownership in the former GMLP shipping fleet.

BEAR CASE $17.00

Value of only existing terminals

NFE is unable to finalize additional contracts. The company is unable to sign additional contracts and we only give value for projects that are currently online or under construction and excludes additional growth projects and Fast LNG. Our bear case assumes gas prices at +$0.75/MMBtu above our base case.

Risk Reward – New Fortress Energy Inc (NFE.O)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Projected LNG Sales Volumes (k GPD)	4,209	5,796	8,601	9,100
Average LNG Sales Price ($mmbtu) ($)	19.8	16.7	13.5	24.9
LNG EBITDA ($/mmbtu) ($)	8.9	8.6	5.7	9.3
Downstream terminals online	4	6	8	8

INVESTMENT DRIVERS

- Global LNG Prices
- Demand for LNG
- Emerging Market Health

GLOBAL REVENUE EXPOSURE

● 100%   Latin America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 BEST	24 Month Horizon	1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Reaching FID on additional downstream terminals
- Lower LNG prices benefit feedgas sourcing costs
- Increased in-country small scale penetration

RISKS TO DOWNSIDE

- Execution risk / NFE is unable to sign contracts to support its project pipeline
- High country / customer credit risk
- Contracts may be subject to renegotiation
- Potential competition from existing players, majors, or traders

OWNERSHIP POSITIONING

Inst. Owners, % Active	86.8%
HF Sector Long/Short Ratio	1.7x
HF Sector Net Exposure	4.4%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e

	Low	Mean	MS Est	High
Sales / Revenue ($, mm)	3,039	4,107	4,975	4,975
EBITDA ($, mm)	1,380	2,064	2,110	2,714
Net income ($, mm)	775	1,120	1,133	1,979
EPS ($)	3.90	5.47	5.52	9.43
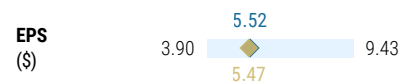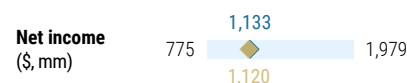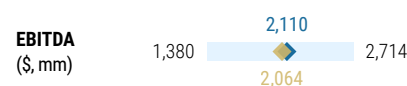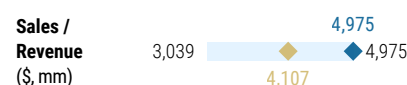
◆ Mean   ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – NextEra Energy Inc (NEE.N)

Attractive way to play the strong, multi-decade growth in US clean energy

PRICE TARGET $90.00

We assign a 15% premium to the 2024 P/E peer multiple to value NEE's Utilities. For NEER, we use a DDM analysis with a target equity yield for contracted assets and EV/EBITDA analysis for merchant power. We apply 7% cost of capital / 9% terminal yield for the yieldco, 9% FCF/Equity yield for yieldco dropdown eligible assets, and ~5x EV/EBITDA for merchant power. We also include in our valuation accretion from renewables growth through 2035.

Consensus Price Target Distribution

$89.54

$76.00   MS PT $108.00

◆ Mean   ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$97.00(+47.66%)   Prob (>97.00)~4.1%
$90.00(+37.01%)   Prob (>90.00)~8.6%
$65.69
$56.00(-14.75%)   Prob (<56.00)~21.5%

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- NEE is poised to be one of the biggest beneficiaries of the Inflation Reduction Act, which brings faster solar, wind, and storage growth over 10+ years
- Underappreciated green hydrogen upside that could grow the rrenewables market 25% and offer attractive returns
- Limited regulatory risk, long track record of execution, and upside to the long-term EPS growth outlook from renewables
- We view probability of material economic damage from Florida lobbying headlines as low.

Consensus Rating Distribution

● ████████   77% Overweight
  ██   23% Equal-weight
                  0% Underweight

● MS Rating
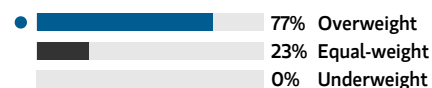
Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Renewable Energy: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $97.00

Premium Utility + Higher Renewables Growth

Higher value for the Utilities driven by slightly higher earnings growth and a 20% premium to the peer large cap utility multiple.

For NEER we reflect slightly lower discount rates and increased renewables/storage deployments beyond 2024.

BASE CASE $90.00

Premium Utility + Renewables Growth

We assign a 15% premium to the 2024 P/E peer multiple to value NEE's Utilities. For NEER, we use a DDM analysis with a target equity yield for contracted assets and EV/EBITDA analysis for merchant power. We apply 7% cost of capital / 9% terminal yield for the yieldco, 9% FCF/Equity yield for yieldco dropdown eligible assets, and ~5x EV/EBITDA for merchant power. We also include in our valuation accretion from renewables growth through 2035.

BEAR CASE $56.00

FL lobbying risk + slower earnings growth profile

Lower value for the Utilities driven by lower earnings on the back of a blended ROE of 10.25% (vs. 11% in the base case) and a 12% discount to the group's P/E multiple (vs. 15% premium in the base case) that reflects the risk of a formal information request issued to NextEra/FPL as part of the FL lobbying scandal.

For NEER, we reflect slightly higher discount rates and no renewables growth beyond 2024.

Risk Reward – NextEra Energy Inc (NEE.N)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Rate base growth (end of year) (%)	11.3	10.2	7.2	6.6
Earnings growth (%)	14.0	7.0	9.6	8.8
FFO to Debt (%)	13.2	19.3	19.4	18.4
NEER Adjt. EBITDA ($, mm)	6,703	7,971	8,737	10,000

INVESTMENT DRIVERS

- Rate case (ROE, Equity Ratio) and other regulatory outcomes
- O&M management
- Reliability of earnings growth
- Capital expenditures and Rate Base growth
- Renewables development outlook and execution

GLOBAL REVENUE EXPOSURE

● 100% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger market appetite for renewables
- Higher market share gain in the renewables/storage development space
- Higher IRRs for renewables projects

RISKS TO DOWNSIDE

- News flow around FL lobbying investigations
- Unfavorable rate case outcomes
- Failure to complete utility / renewables growth projects
- NEP underperformance
- Decreased market appetite for renewables

OWNERSHIP POSITIONING

Inst. Owners, % Active	57.6%
HF Sector Long/Short Ratio	1.3x
HF Sector Net Exposure	0.8%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2023e

Sales / Revenue ($, mm)	18,462	27,269 / 25,491	27,795
EBITDA ($, mm)	12,528	14,396 / 14,226	16,786
Net income ($, mm)	6,305	6,327 / 6,348	6,437
EPS ($)	3.09	3.10 / 3.12	3.17
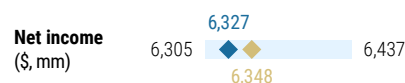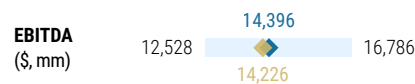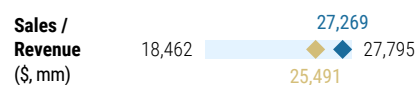
◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – NVIDIA Corp. (NVDA.O) `Top Pick`

OW as large language model enthusiasm is transforming cloud capex

PRICE TARGET $630.00

42x our MW CY24 EPS estimate of $15, a premium to peers, reflecting the expansion in all AI names as well as our higher conviction in estimates given NVIDIA's higher AI exposure. We believe that NVIDIA should trade at a premium given its higher probability of upward revisions in the near term.

Consensus Price Target Distribution	$382.40	$619.69 ◆ MS PT	$1,100.00
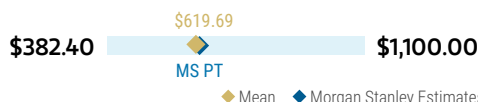
Source: Refinitiv, Morgan Stanley Research

◆ Mean   ◆ Morgan Stanley Estimates

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$800.00(+69.99%)   Prob (>800.00)~2.5%
$630.00(+33.87%)   Prob (>630.00)~14.8%
$470.61
$370.00(-21.38%)   Prob (<370.00)~35.6%

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- We expect NVDA's Data Center business to drive much of the growth over the next 5 years, as enthusiasm for generative AI has created a strong environment for AI/ML hardware solutions - NVDA's being one of the most important. Incremental opportunities in AI/ML software & services, networking, and ADAS can drive growth even higher.
- As channel inventory clears out and 40-series gaming product attracts new demand, we do see some upside to conservative gaming numbers and expect a return to more stable and sustainable +10% growth in gaming long-term.

Consensus Rating Distribution
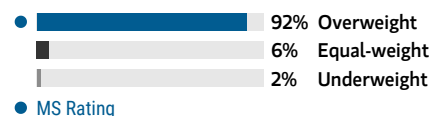
●	92%	Overweight
■	6%	Equal-weight
▮	2%	Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption:	Positive
New Data Era:	Positive
Secular Growth:	Positive

View descriptions of Risk Rewards Themes here

BULL CASE $800.00

45x bull case MW CY24 EPS of $20

Bull case has DC revenues continuing to grow well into 2024. Upside from networking, grace hopper based systems, and software create potential for a full stack AI computing company worthy of an even greater valuation premium

- Higher margin data center and AI-focused software and services growth accelerates

- 40-series product adoption reaccelerates gaming growth similar to prior cycles

- Automotive opportunity takes off, allowing the company to earn recurring, per-car licensing revenue

BASE CASE $630.00

42x our MW CY24 EPS of $15

42x valuation is a premium to peers, reflecting the expansion in all AI names as well as our higher conviction in estimates given NVIDIA's higher AI exposure. We believe that NVIDIA should trade at a premium given its higher probability of upward revisions in the near term.

- Revenue grows by 103% in 2023 and 53.3% in 2024

- Datacenter continues to grow through the first half of 2024 as supply remains constrained

- Gaming continues to rebound as 40-series adoption picks up in mass tiers

BEAR CASE $370.00

37x bear case MW CY24 EPS of $10.00

Two key debates both go the wrong direction, causing investors to question future prospects for growth

- Growth in DC slows substantially as supply catches up to demand faster than anticipated

- AI development costs come down materially, a strong competitor enters the market to take market share, or customers begin insourcing custom hardware solutions

Risk Reward – NVIDIA Corp. (NVDA.O)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
GAAP Revenue ($, mm)	26,974	54,795	83,994	91,631
MW Gross Margin (%)	58.7	71.5	71.0	71.2
MW EPS ($)	2.61	9.88	15.14	16.04
Inventory ($, mm)	5,159	5,328	6,950	7,742
DOI	159.9	119.0	100.8	103.6

INVESTMENT DRIVERS

- Slate of ray tracing and DLSS-enabled video games
- Next gen Turing gaming GPUs
- Data center continues to be a major focus as key cloud customers focus on "deep learning"
- Potential inflection in Auto revenue as ADAS level 3-5 vehicles go into production

GLOBAL REVENUE EXPOSURE
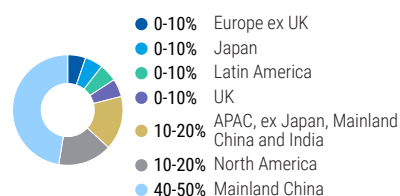
- 0-10% Europe ex UK
- 0-10% Japan
- 0-10% Latin America
- 0-10% UK
- 10-20% APAC, ex Japan, Mainland China and India
- 10-20% North America
- 40-50% Mainland China

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 BEST	24 Month Horizon	5/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Growth in DGX and deep learning training and inference propel data center revenue
- Gaming sales rebound following last year's crypto digestion
- Traction in new conversational AI workloads

RISKS TO DOWNSIDE

- Significant investment in new but unproven opportunities
- Continuation of sluggish PC market
- AMD reemerges as a viable GPU competitor
- Cloud customers are able to develop competitive custom hardware

OWNERSHIP POSITIONING

Inst. Owners, % Active	56.2%
HF Sector Long/Short Ratio	2.4x
HF Sector Net Exposure	27.7%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jan 2024e

Sales / Revenue ($, mm)	53,200	54,795 / 54,625	57,922
EBITDA ($, mm)	30,860	33,349 / 32,430	34,288
Net income ($, mm)	24,027	27,301 / 26,771	28,714
EPS ($)	10.10	10.94 / 10.76	11.49

◆ Mean   ◆ Morgan Stanley Estimates
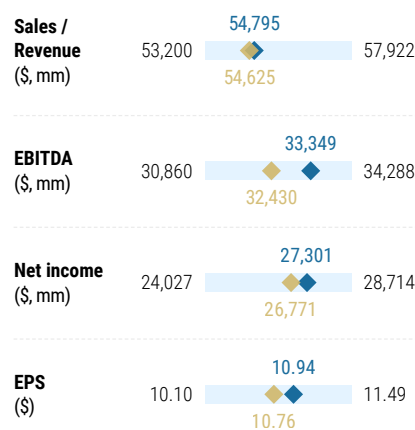
Source: Refinitiv, Morgan Stanley Research

Risk Reward – Sherwin-Williams Co. (SHW.N)

Price/Raws Finally Playing Out As Volume Holds Up Better Than Feared

PRICE TARGET $300.00

~25x 2024 EPS, above the high end of the 2013-2018 range and more inline with recent ranges - note that other "luxury chemicals" such as ECL, APD and LIN have also sustainably exceeded their historical ranges. We also believe that SHW is now comped against higher multiple biz services names.
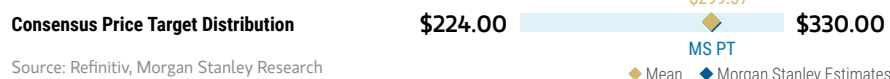
Consensus Price Target Distribution

$224.00 $299.37 $330.00
MS PT

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

$375.00(+39.37%)   Prob (>375.00)~7.9%
$300.00(+11.50%)   Prob (>300.00)~44.1%
$269.07
$225.00(-16.38%)   Prob (<225.00)~18.1%

Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of {{date}} 06 Sep, 2023. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- While guidance was materially increased, 2H remains conservative.
- Our price/raws thesis is finally playing out in earnest as we move through 2H23 and into 2024.
- Likewise, our view that pro paint volume would hold up better than feared as: i) consumers are continuing to reinvest in their homes (i.e., age in place 2.0 due to "lock in mortgage rates"); and ii) SHW's order book is far more diverse than consensus understood (i.e., new home construction is just 15% of PSG volume and SHW continues to gain share).
- Importantly, rather than over-earn today at the expense of growth tomorrow, the company is reinvesting some of the price/raws benefits for growth (as it has done in the past).

Consensus Rating Distribution

53% Overweight
43% Equal-weight
3% Underweight

● MS Rating
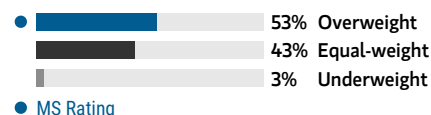
Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Market Share: *Positive*
Pricing Power: *Positive*
Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $375.00

~25x ~$14 2024 Bull Case EPS

Housing downturn proves short and shallow with a sharp recovery. SSS +MSD in 2024. Majority of pricing holds leading to record margins and profits. Sherwin's multiple holds in recognition of through the cycle pricing/eps power. Home improvement robust and weather and painter availability accommodative. DIY up MSD in 2024+ and Perf. Coatings margins higher with strong volume - debates shifts to how far above 20% can they go? Significant share repos.

BASE CASE $300.00

~25x ~$12 '24e EPS

2H guidance still looks conservative on volume, price and COGS, though it is also fair to say that order book uncertainty remains and that hurricane season awaits. Nonetheless, we think the bear case has become both less scary and less probable while the discussion of $12-14 of EPS power is back to being a question of "when" rather than "if". Assuming housing macro data continues to bottom out and the US Fed is closer to pausing than not, we expect investor sentiment to continue to improve.

BEAR CASE $225.00

~25x 2023 Bear Case EPS of ~$9

Raw material reversion and less soft landing for pro paint demand. A rough hurricane season reverses deflation (at least temporarily), residential repaint demand does not hold up as well as expected, and housing starts turn negative again. Sherwin backs off of some of the amped up SG&A spend as an offset but still comes in below its 2Q23 guidance raise.

Risk Reward – Sherwin-Williams Co. (SHW.N)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
Same Stores Sales Growth (%)	11.7	6.3	4.5	5.0
TAG PBT ($, mm)	2,348	2,671	3,062	3,367
Performance PBT ($, mm)	957	1,130	1,293	1,369
Consumer PBT ($, mm)	432	459	554	591
EBIT Growth (%)	13.1	12.2	15.7	8.9

INVESTMENT DRIVERS

- Same-store-sales acceleration following market share gains
- Improved performance at Lowe's from new partnership, which should rebuild Consumer segment margins
- Monthly US housing data (housing starts, existing home sales, home improvement spending)

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% Europe ex UK
- 0-10% Latin America
- 0-10% UK
- 80-90% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 BEST	24 Month Horizon	3/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Macro/housing data turns faster than expected
- Price increases continuing as raw materials deflate in 2023/2024
- Continued market share gains on recent reinvestment initiatives

RISKS TO DOWNSIDE

- Deeper and longer recessionary environment
- DIY hard landing
- Further raw material production outages/cost inflation

OWNERSHIP POSITIONING

Inst. Owners, % Active	65%
HF Sector Long/Short Ratio	1.7x
HF Sector Net Exposure	3.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2023e

	Low	Mean / MS	High
Sales / Revenue ($, mm)	22,350	MS 22,985 / Mean 22,836	23,118
EBIT ($, mm)	2,958	MS 3,769 / Mean 3,578	3,932
EBITDA ($, mm)	3,851	MS 4,108 / Mean 4,087	4,355
EPS ($)	9.46	MS 9.70 / Mean 9.78	10.38
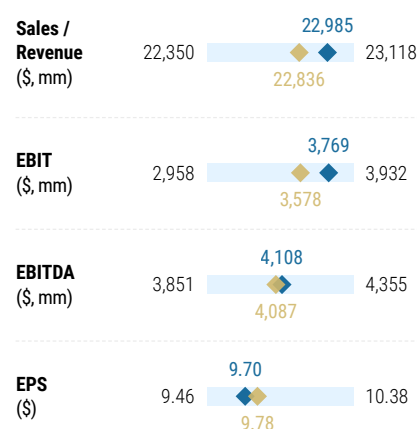
◆ Mean   ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Risk Reward – Visa Inc. (V.N)

Resilient double-digit returns over the medium term offers appealing risk reward

PRICE TARGET $292.00

Based on 28.5x target P/E multiple on our base-case CY24 EPS estimate. This target multiple is ~in-line with V's 5-year average multiple and a ~2x discount to our valuation for Mastercard given slower medium-term growth at V off a larger base.

Consensus Price Target Distribution

$278.38

$220.00 ◆ ◆ $336.00

MS PT

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART

USD

$347.00(+40.97%)

$292.00(+18.62%)

$246.16

$144.00(-41.50%)

SEP '22   MAR '23   SEP '23   SEP '24
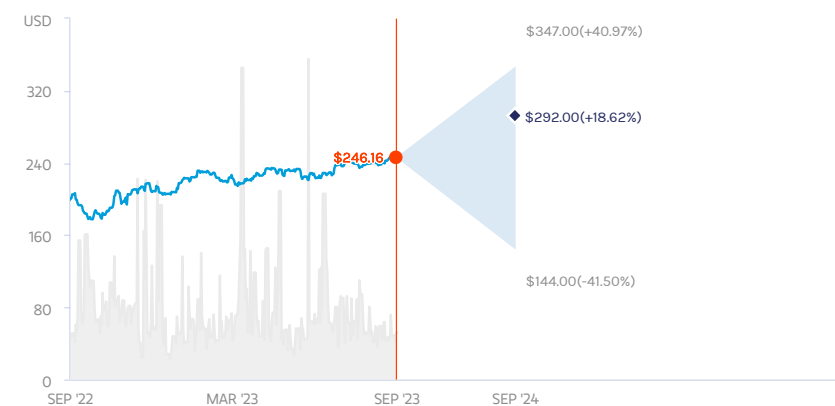
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

V is one of our preferred stocks, as it is a key beneficiary of resilient global consumer spend growth, the ongoing shift from cash to electronic payments, and broadening merchant acceptance. Global Personal Consumption Expenditure and secular growth drivers should support low double-digit revenue growth in the near-to-medium term. We see upside opportunity from faster-than expected recovery of travel and the sustained strength of cross-border ecommerce. Continued investment in longer term initiatives (faster payments, P2P, B2B) and partnerships continue to increase its TAM and offer an opportunity for compounding double digit earnings growth for the foreseeable future.

Consensus Rating Distribution

● ▬▬▬▬▬▬▬ 90% Overweight
  ▪ 10% Equal-weight
  0% Underweight

● **MS Rating**

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

| Pricing Power: | *Positive* |
| Secular Growth: | *Positive* |

View descriptions of Risk Rewards Themes here

BULL CASE $347.00

31x CY24e bull-case EPS

Upside from new initiatives and growth channels combined with organic payment volume growth drives a mid-teens revenue CAGR from 2022-25, accompanied by a low-20% annual EPS growth.

BASE CASE $292.00

28.5x CY24e base-case EPS

Organic payment volume growth continues as domestic spend volumes hold up even amid some macro concerns in CY23 while international tourism climbs back. Net revenues grow at a a low-double digit CAGR from 2022-25 while Adj. EPS grows mid-teens on scale and buybacks.

BEAR CASE $144.00

15x CY24e bear-case EPS

Organic payment volume growth slows due to cyclical factors and international tourism growth stalls, resulting in a high-single digit revenue CAGR from 2022-25, while Adj. EPS also grows high-single to low-double digits as V invests to defend its position.

Risk Reward – Visa Inc. (V.N)

KEY EARNINGS INPUTS

Drivers	2022	2023e	2024e	2025e
US Payment Volume YoY Growth (%)	15.1	7.6	7.0	7.0
Total Payment Volume YoY Growth (%)	11.6	5.9	9.8	8.7
Total Revenue YoY Growth (%)	21.6	11.2	12.4	10.7
Adj. Operating Margin (%)	68.0	68.0	68.3	68.6
Adj. EPS Growth (%)	26.9	15.7	14.6	13.1

CATALYST CALENDAR

Date	Event	Source: Refinitiv, Morgan Stanley
24 Jan 2024 - 28 Jan 2024	Visa Inc Annual Shareholders Meeting	

INVESTMENT DRIVERS

- Growth in global personal consumer expenditure
- Shift of consumer payments from cash to card
- Market share gains from key competitors and local schemes
- Adoption/monetization of B2B offerings
- Regulatory environment

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster than expected recovery of cross-border tourism
- Ability to continue to meet/beat expectations
- Faster-than-expected adoption/scaling of B2B solutions, driving multiple expansion

RISKS TO DOWNSIDE

- Material slowdown in consumer spend; Slow recovery in cross-border growth
- Portfolio losses in the US
- Regulatory changes in key markets promoting domestic schemes

MS ESTIMATES VS. CONSENSUS

FY Sep 2024e

Sales / Revenue ($, mm) 34,726 — 36,644 / 36,178 — 36,865

EBIT ($, mm) 23,755 — 25,023 / 24,772 — 25,904

EPS ($) 9.16 — 9.95 / 9.85 — 10.22

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

GLOBAL REVENUE EXPOSURE

- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 10-20% Europe ex UK
- 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

OWNERSHIP POSITIONING

Inst. Owners, % Active	66.3%
HF Sector Long/Short Ratio	1.8x
HF Sector Net Exposure	11.1%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ALPHA MODELS

| 2/5 BEST | 24 Month Horizon | 3/5 MOST | 3 Month Horizon |

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile
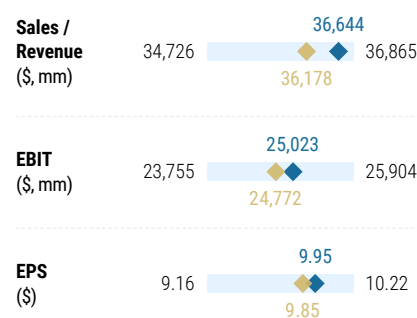
Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - Microsoft PowerPoint - Exhibit Links.pptx

4. View explanation of 'Indicator of Change' methodology - ESG_Indicator_of_Change_External_Link.pdf

5. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

6. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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(as of August 31, 2023)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1345	37%	273	43%	20%	606	39%
Equal-weight/Hold	1686	46%	301	47%	18%	719	47%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	594	16%	67	10%	11%	218	14%
Total	3,628		641			1544	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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